

# The Effect of Credit Market Competition on Lending Relationships

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*The Quarterly Journal of Economics*, Volume 110, Issue 2, May 1995, Pages 407–443, <https://doi.org/10.2307/2118445>

**Published:** 01 May 1995

## Abstract

This paper provides a simple framework showing that the extent of competition in credit markets is important in determining the value of lending relationships. Creditors are more likely to finance credit-constrained firms when credit markets are concentrated because it is easier for these creditors to internalize the benefits of assisting the firms. The paper offers evidence from small business data in support of this hypothesis.

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